ORIGINAL

EX PARTE OR LATE FILED

Jeffrey Wm Ward
Senior Vice President
Regulatory Compliance

verizon

1310 North Court House Road, 4th
Arlington, VA 22201

Phone 703.974.4902
Fax 703.974.0706
Jeffrey.W.Ward@verizon.com

March 15, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TWB – 204
Washington, D.C 200554

RECEIVED

MAR 15 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Salas:

Re: Ex Parte: In re Application of GTE Corp., Transferor, and Bell Atlantic Corporation, Transferee For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License CC Docket No. 98-184

The enclosed materials are being filed pursuant to Verizon Communications, Inc.'s ("Verizon") obligations under Appendix D, Section XXI, paragraph 55 (c) of the above referenced docket that requires an annual compliance report be filed with the Common Carrier Bureau's Audit Staff and for the public record no later than March 15 of the calendar year following the year covered by the report.

This letter provides notice that a copy of the report was filed with the Common Carrier Bureau's Audit Staff.

Please include the enclosed document in the record of the above referenced proceeding.

Sincerely,

J. W. Ward

Jeffrey W. Ward

Enclosure

No. of Copies rec'd 0+1
List A B C D E

Jeffrey Wm Ward
Senior Vice President
Regulatory Compliance

verizon

1310 North Court House Road, 4th
Arlington, VA 22201

Phone 703.974.4902
Fax 703.974.0706
Jeffrey.W.Ward@verizon.com

March 15, 2001

RECEIVED

MAR 1 5 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. Anthony Dale, Esq.
Federal Communications Commission
Accounting Safeguards Division - Legal Branch
445 12th St SW – Room 6-C431
Washington, D.C. 20554

Dear Mr. Dale:

As the Verizon senior corporate regulatory compliance officer, I have responsibility for all regulatory compliance activities, including compliance with merger-related conditions. Pursuant to Appendix D, Section XXI, paragraph 55 (c) of Docket No. 98-184, I am submitting Verizon's 2000 Annual Compliance Report.

Sincerely,

Jeffrey W. Ward

Jeffrey W. Ward

veri on

Verizon Communications Inc.

Bell Atlantic/GTE Merger Conditions Annual Compliance Report

Jeffrey W. Ward
Senior Vice President –
Regulatory Compliance
Verizon Communications Inc.

March 15, 2001

Jeffrey Wm Ward
Senior Vice President
Regulatory Compliance

verizon

1310 North Court House Road, 4th
Arlington, VA 22201

Phone 703.974.4902
Fax 703.974.0706
Jeffrey.W.Ward@verizon.com

March 15, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TWB – 204
Washington, D.C 200554

Dear Ms. Salas:

Re: Ex Parte: In re Application of GTE Corp., Transferor, and Bell Atlantic Corporation, Transferee For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License CC Docket No. 98-184

The enclosed materials are being filed pursuant to Verizon Communications, Inc.'s ("Verizon") obligations under Appendix D, Section XXI, paragraph 55 (c) of the above referenced docket that requires an annual compliance report be filed with the Common Carrier Bureau's Audit Staff and for the public record no later than March 15 of the calendar year following the year covered by the report.

This letter provides notice that a copy of the report was filed with the Common Carrier Bureau's Audit Staff.

Please include the enclosed document in the record of the above referenced proceeding.

Sincerely,

J.W. W. Ward

Jeffrey W. Ward

Enclosure

Jeffrey Wm Ward
Senior Vice President
Regulatory Compliance

verizon

1310 North Court House Road, 4th
Arlington, VA 22201

Phone 703.974.4902
Fax 703.974.0706
Jeffrey.W.Ward@verizon.com

March 15, 2001

Mr. Anthony Dale, Esq.
Federal Communications Commission
Accounting Safeguards Division - Legal Branch
445 12th St SW – Room 6-C431
Washington, D.C. 20554

Dear Mr. Dale:

As the Verizon senior corporate regulatory compliance officer, I have responsibility for all regulatory compliance activities, including compliance with merger-related conditions. Pursuant to Appendix D, Section XXI, paragraph 55 (c) of Docket No. 98-184, I am submitting Verizon's 2000 Annual Compliance Report.

Sincerely,

Jeffrey W. Ward

Jeffrey W. Ward

verizon

Verizon Communications Inc.

Bell Atlantic/GTE Merger Conditions Annual Compliance Report

Jeffrey W. Ward
Senior Vice President –
Regulatory Compliance
Verizon Communications Inc.

March 15, 2001

Table of Contents

Ensuring Compliance with and Enforcement of These Conditions

Executive Summary

Executive Summary
Verizon Annual Merger Compliance Report
March 15, 2001

The Bell Atlantic/ GTE Merger Conditions ("Merger Conditions") require Verizon to submit a report annually by March 15 addressing the Company's compliance with the Merger Conditions for the preceding calendar year. This first report summarizes Verizon's compliance efforts from June 30, 2000, the Merger Close Date ("MCD"), including efforts completed as of merger close, through December 31, 2000. Verizon has implemented required commitments for this reporting period and is in compliance with the Merger Conditions as specified in this report. Verizon has made required changes in business processes to provide continued compliance.

The Merger Conditions required Verizon to fulfill numerous requirements by a series of firm deadlines: the MCD, within several days of the MCD and within 30, 60, 90, 120 or 180 days of the MCD. In all, Verizon was required to meet over 100 commitments during the first six months following the MCD. Verizon has met these commitments as specified in this report. Moreover, Verizon, during this period, further defined and refined processes and procedures for implementing Merger Condition requirements after December 31, 2000, providing Verizon with reasonable assurance of ongoing compliance with the Conditions as a whole.

The Verizon Merger Conditions established the following five policy goals:

- Promoting equitable and efficient Advanced Services deployment;
- Ensuring open local markets;
- Fostering out-of-region competition;
- Improving residential phone service; and
- Ensuring full compliance with and enforcement of these Conditions.

As more fully described in the section on each condition, the following provides a summary of the actions taken by Verizon and its subsidiaries to implement the Merger Conditions in 2000.

Promoting Equitable and Efficient Advanced Services Deployment

- Filed for all state certifications and approvals necessary for the establishment of a separate Advanced Services affiliate. Notified the FCC, pursuant to Section 1(6)(f) of the Merger Order, on December 18, 2000, that Verizon will not be providing Advanced Services through a separate affiliate in California, Hawaii, New Jersey and a portion of Virginia by December 27, 2000, due to pending state regulatory approvals.

- Transitioned the provisioning of Advanced Services in Verizon service areas to a structurally separate affiliate in accordance with the schedule and operating provisions set forth in Merger Condition I in twenty-eight states.

- Complied with the FCC's line sharing order as of the deadline of June 6, 2000.
- Filed required state cost studies, made interim loop conditioning rates available, and obtained authorization for loop conditioning prior to performing work that would result in charges. Provided at no charge to the Advanced Services provider, conditioning for eligible loops under 12,000 feet to meet minimum requirements for removal of load coils, bridged taps, and/or voice grade repeaters.
- Classified wire centers as urban or rural and designated low-income pools for Advanced Services deployment.

Ensuring Open Local Markets

- Implemented, in consultation with the FCC, a performance measurement process and began monthly reporting of the 17 measurement categories identified in Attachments A-1a and A-1b of the Merger Conditions.
- Filed the Uniform and Enhanced OSS and Advanced Services OSS Plan of Record on September 28, 2000. Completed the collaborative process specified in the Plan of Record. On December 22, 2000, Verizon issued a revised Plan of Record reflecting areas of agreement resulting from these discussions.
- Offered to develop and deploy in the Verizon service areas an Electronic Bonding Interface that supports maintenance and repair of resold local services and UNEs that meet the requirements of 47 U.S.C. §251(c)(3).
- Applied to qualifying lines, unless a CLEC opted not to receive the discount, a 25% discount on the recurring and non-recurring charges that otherwise would be applicable on unbundled local loops used to provide advanced services.
- Established OSS teams to assist Qualifying CLECs, provided notice of the teams' availability, held forums to identify beneficial training and procedures, and communicated the training schedule.
- Filed collocation tariffs or offered interconnection agreement amendments in all required states prior to the MCD.
- Engaged auditors to attest that Verizon has complied with the collocation and UNE/line sharing rules for four full consecutive months after the MCD.
- Offered most-favored-nation ("MFN") interconnection agreements and completed appropriate requests.
- Offered to provide multi-state interconnection/resale agreements and made available a generic multi-state interconnection and resale agreement covering all Verizon states on August 29, 2000.
- Provided the required unbundled loop discounts used in the provision of residential service to carriers unless the carrier proactively chose not to accept the discount.

- Provided the required resale discounts to CLECs unless the carrier proactively chose not to accept the discount.
- Continued to make available the UNEs and UNE combinations required in the FCC's UNE and line sharing orders.
- Offered to provide Alternative Dispute Resolution through mediation as outlined in Attachment F of the Merger Order.
- Began a cabling access trial to identify procedures and associated costs required to provide telecommunications carriers with access to cabling within Multi- Dwelling Unit premises where Verizon controls the cables.
- Offered owners and developers of multi-tenant properties, where required, the option to install a single point of interconnection at a minimum point of entry when the property owner or other party owns or maintains the cabling beyond the single point of interconnection.

Fostering out-of-region competition

- Began analyzing out-of-region activity and potential future strategic acquisitions to develop a plan for meeting the requirements of this Condition. No milestones were required to be met in 2000.

Improving residential phone service

- Provided an interLATA services pricing plan with no minimum monthly or flat rate charge.
- Filed letters, within 30 days after MCD, with thirty-two state commissions in the Verizon footprint offering to file a tariff for an Enhanced Lifeline plan in the Verizon service area within that state. Implemented the Enhanced Lifeline plan in Delaware.
- Filed the first quarterly NARUC retail service quality report.
- Proposed business rules to the Common Carrier Bureau for reporting service quality provided to Genuity compared to other companies. Proposed revisions to one of the proposed rules.
- Reported monthly the service quality data required pursuant to paragraph 53 of the Merger Order showing the service level provided to Genuity compared to other companies for special access and high capacity services.
- Participated in all required meetings of the Network Reliability and Interoperability Council, including Focus Groups.

Ensuring full compliance with all Conditions

- Prior to MCD, appointed a Senior Corporate Regulatory Compliance Officer.

- The Audit Committee of the Board of Directors was directed by the Verizon Board of Directors to oversee the Senior Corporate Regulatory Compliance Officer's work.
- Selected independent auditors to perform the required reviews, who were subsequently approved by the FCC. In conjunction with the FCC's Accounting Safeguards Division Audit Branch and the Independent Auditors, completed four audit programs and began development of the agreed-upon procedures as defined by the Merger Conditions. The independent auditors submitted preliminary audit programs to the FCC for review on a timely basis.
- Granted the independent auditors access to relevant Verizon books, records, operations, and personnel.
- Provided the FCC with a Compliance Plan outlining the processes, procedures, and controls being implemented to provide reasonable assurance of ongoing compliance corporate-wide with the Merger Conditions.

This report is divided into two sections that track to the Compliance Plan Verizon submitted to the FCC on August 29, 2000. The first section, the Introduction, provides a summary of the actions being taken by Verizon to establish the control framework that will provide reasonable assurance of overall compliance with all the Merger Conditions. The second section, the Conditions, provides an update on each Merger Condition, per Appendix D of the Merger Order, and includes a separate section at the end of the report describing Verizon's compliance with the obligations to implement the IPO for Genuity. Verizon believes this report demonstrates our compliance with the Merger Conditions.

Introduction
Verizon Merger Compliance Report
March 15, 2001

On June 16, 2000, the Federal Communications Commission (FCC) adopted and released its Memorandum Opinion and Order in CC Docket No. 98-184 granting the applications for transfer of licenses and lines pursuant to the merger of Bell Atlantic Corporation and GTE Corporation. The merger closing was subject to a number of Conditions including compliance with specified Genuity relationships and compliance with twenty-five (25) market opening Conditions. The merger closing date was June 30, 2000.

Verizon is providing this Annual Compliance Report to the FCC Common Carrier Bureau's Audit Staff as required by paragraph 55 (c) in Appendix D of the Order. The terms "former Bell Atlantic" and "former GTE" refer to the companies providing service in the "Bell Atlantic service area" and "GTE service area" as defined in Appendix D of the Order.

This report is divided into two sections:

- This Introduction outlines the overall internal control and compliance requirements that Verizon has put in place to communicate, track, and monitor the timely satisfaction of these Merger Conditions. The Introduction also addresses the process to review internal and external reports of non-compliance and provides information on merger efficiencies to the best of our knowledge as of the date of the report.

- The second section of the report provides the following information for each Merger Condition:

  - a summary statement of the Condition;[1]
  - identification of the Responsible Executive(s) accountable for that Condition;
  - explanation of the implementation of the Condition, including compliance with milestones, methods and procedures, training, internal controls, and documentation; and
  - recognition of additional action taken, if any.

Internal Controls and Compliance

Verizon is committed to complying with all Merger Conditions and has done so, as specified in this Merger Compliance Report. Sufficient resources have been and will

[1] Summaries of the relevant merger conditions are provided for the convenience of the reader only. These summaries do not restate or revise in any way the rights and obligations of the Verizon companies under the merger conditions.

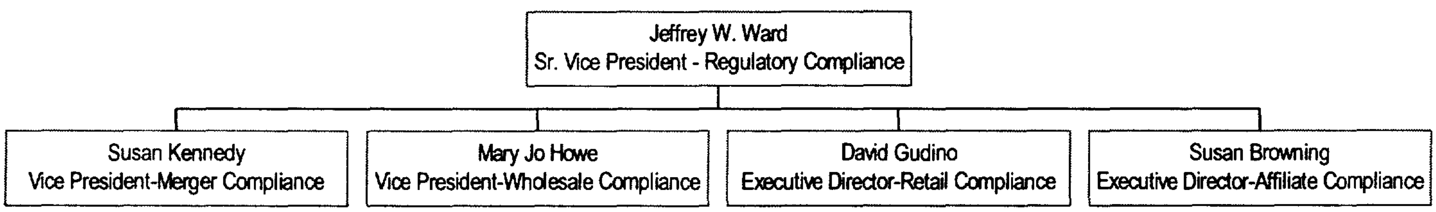
continue to be dedicated and adequate processes have been created and will continue to be followed, to comply with the Merger Conditions. Under the direction of the Senior Corporate Regulatory Compliance Officer, Verizon established an internal control and project management approach to provide reasonable assurance of compliance with all Merger Conditions. The essential components of this approach, as detailed in this Merger Compliance Report, are summarized below.

Verizon has implemented cost-effective internal controls designed to increase confidence that condition sub-steps have been identified and that assigned actions have led to the intended compliance with the condition. Internal controls do not provide complete assurance of compliance. The internal controls implemented across the program and specifically on each condition provide reasonable assurance that assigned actions are completed fully, are timely executed, and are properly documented.

Merger Compliance Organization

Ivan Seidenberg, President and Co-Chief Executive Officer, appointed Jeffrey W. Ward as Senior Vice President – Regulatory Compliance. In this capacity, Mr. Ward is the Senior Corporate Regulatory Compliance Officer with responsibility for all regulatory compliance activities, including compliance with merger-related Conditions. The Verizon Board of Directors directed the Audit Committee of the Board of Directors to oversee the activities of the Senior Corporate Regulatory Compliance Officer. Mr. Ward has reported regularly to the Audit Committee of the Board of Directors.

As described in the Merger Compliance Plan, Mr. Ward established the following regulatory compliance organization:



This organization's responsibilities include merger issue identification and resolution; data and reporting integrity for merger compliance information; merger compliance document retention; external audit oversight; and FCC interface and reporting.

Responsible Executive/Compliance Manager Model

One or more Responsible Executives have been assigned to each Merger Condition. Each Responsible Executive acknowledged and accepted this role and led the development and execution of plans to satisfy the requirements associated with his/her assigned Conditions. The Responsible Executives will continue their active involvement to provide for ongoing merger compliance. As required in the Merger Compliance Plan, the Responsible Executives regularly reported to the Senior Vice President –

Regulatory Compliance on the status of Merger Conditions and notified the Senior Vice President – Regulatory Compliance of any issues that impacted or have the potential to impact compliance with Merger Conditions. The Responsible Executives will continue to report to Mr. Ward on regularly basis.

Each Responsible Executive named one or more Compliance Managers within his/her organization, to manage the merger compliance activities. The Compliance Managers coordinated the development of work plans with the individuals who performed the tasks and monitored and reported progress toward the established due dates. Compliance Managers will continue to perform these merger compliance activities for all Conditions. Once FCC requirements were implemented, compliance monitoring steps were established and will continue to be tracked and reported.

Executive Management Compliance Council (EMCC)

An Executive Management Compliance Council, chaired by the Vice President-Merger Compliance, was established to provide executive oversight and accountability for compliance with all Merger Conditions. Membership includes the Responsible Executives, the Compliance Managers, the Senior Vice President – Regulatory Compliance, the Senior Vice President – Deputy General Counsel for Domestic Telecom and the Senior Leadership of the Regulatory Compliance Organization. The EMCC met weekly in 2000 after the MCD to assess that proper resources and responsibilities had been assigned to achieve compliance and that Conditions affecting multiple work groups were coordinated. Mr. Ward or his designee participated in each EMCC meeting.

In addition to each member's normal organizational responsibilities, the EMCC established the overall leadership for merger compliance and provided direct support to the Senior Vice President – Regulatory Compliance to provide accurate and timely implementation and reporting of Merger Conditions.

Project Management Approach

A structured, mechanized project management environment was established to aid in the management and tracking of deliverables associated with each Condition. Using standard software tools and project management techniques, the Vice-President – Merger Compliance established and monitored work plans to keep all levels of management informed as to timely progress toward meeting Merger Conditions.

Highlights of the Program Management Approach:

- defined and documented each requirement and the due date by which it must be met per the Order;
- identified the specific business unit owner for each requirement;

- using project management techniques, monitored compliance deliverables and due dates;
- identified critical items on a weekly basis, and required Compliance Managers to provide the EMCC with action plans and status updates;
- implemented, documented, and communicated an internal project management change control process; and
- regularly reviewed overall progress, key milestones and potential issues.

The output from this process was the basis for the report used to facilitate the EMCC meetings. In addition, an internal merger website was made available to the EMCC, which provided regularly updated statuses and deliverables.

General Employee Communication and Training

As outlined in the Merger Compliance Plan, general information was provided to Verizon employees regarding the Conditions of the merger. The communication emphasized the critical nature of compliance with federal rules and regulations and provided a number of contact points for employees with questions or concerns regarding these matters.

Since merger close, education and training sessions have been held for Responsible Executives, Compliance Managers and other employees working on delivery of one or more of the Conditions. Individual Condition work plans included the development of additional departmental and job-specific training on the conditions. This training is used to educate existing employees in affected work groups on how their job duties, tools and processes may have changed as a result of implementing the requirements associated with the Merger Conditions. In addition, ongoing training curricula for new employees were modified to reflect these changes.

Methods and Procedures Assessment and Enhancement

Verizon's methods and procedures, i.e., tools or written materials (on-line or hard copy) used to document how a particular job or function is to be performed, or that are used to aid and direct day-to-day job tasks, were revised to reflect merger compliant behavior. Staff support groups for these affected functional areas whose responsibilities are critical to achieving compliance with these Conditions will continue to maintain this job-specific information for the life of the requirements. These materials and their use are subject to internal review.

Communications with Competing Carriers (CLEC Outreach)

An overall summary of the Merger Conditions and their impact on the universe of competitive local exchange carrier ("CLEC") customers was delivered by Verizon on July 24, 2000, at the ASCEND industry conference. Ongoing information was posted on the Verizon Wholesale Customer Website.

Verizon utilized numerous means of communication media, with the selection tailored to the requirements of the specific Conditions and the needs of the carriers, including:

- Wholesale Customer Websites;
- Industry Letters;
- OSS Assistance with Qualifying CLECs;
- CLEC User Group meetings;
- Change Management including the CLEC Test Process;
- Wholesale Customer Newsletters;
- Resale and CLEC Wholesale Handbooks;
- Customer Contract Negotiations Packages; and
- Individual Client Meetings with their Account Team.

Internal Controls Workshop

As noted in the Merger Compliance Plan, PricewaterhouseCoopers LLP, the independent auditor engaged to perform the general Merger Conditions compliance audit, conducted several half-day internal control orientation workshops for Compliance Managers and members of the Merger Compliance Office. The objective of the workshops was to familiarize the Compliance Managers and the members of the Compliance Office with the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) model of internal controls. The focus of the workshops was on the five components of internal controls, which are the control environment, risk assessment, information and communication, monitoring activities and control activities. Examples were discussed that demonstrated the application of the COSO framework to the Company's compliance efforts.

Document Retention Requirements

Each Responsible Executive identified the documentation to be retained and implemented appropriate document retention procedures. In addition, a merger compliance document library was established under the direction of the Vice President-Merger Compliance to store a copy of the completion documentation associated with each Merger Condition. The independent auditors utilized the documentation, maintained by the Merger Compliance Library, in the course of their General Merger Conditions review.

Non-Compliance Reporting

As described above, the EMCC meetings and project management tools enabled the Vice President-Merger Compliance to detect and resolve possible instances of non-compliance with Merger Conditions. Responsible Executives were directed to report instances of non-compliance and any potential non-compliance situations to the Senior Vice President-Regulatory Compliance and the Vice President-Merger Compliance.

The Responsible Executives provided this information and discussions took place weekly at the EMCC meetings to identify areas of potential non-compliance and to identify appropriate action. The Conditions section of this report discusses instances in which Verizon has received written third party allegations of non-compliance with the merger conditions. It also provides a summary of any merger compliance issues that are known at the time the report is issued.

Internal Audit Consultation

Verizon's Internal Audit group served and continues to serve the EMCC in an advisory and consultative capacity throughout the planning and execution of all Merger deliverables with respect to internal controls. This group's knowledge of former Bell Atlantic and GTE business processes and current control environments combined with their professional knowledge of internal controls qualifies them to serve in this administrative and consultative capacity. Verizon Internal Audit representatives participated in the Internal Controls Workshops conducted by the independent auditor and conducted work sessions with key Responsible Executives and Compliance Managers to support development of the internal controls that were built into plans and procedures for satisfaction of and compliance with these Conditions.

Merger Efficiencies

Activities prior to June 30, 2000, centered on organizational analysis and inventorying business practices and systems for the identification of possible "Best Practices". Activities following merger close focused on implementing the new combined Verizon organizational structure for the former Bell Atlantic and GTE entities and developing operational plans by the individual business units (lines of business) for integrating major functions. Normal business and antitrust concerns prevented Bell Atlantic and GTE from completing these efforts prior to the MCD. Information on the one-time charges and merger efficiencies is provided in Verizon's 2000 Annual Report.

The lines of business and staff groups undertook a review designed to identify functional process changes and, following approval, implement efforts whose purpose was to eliminate redundancy and generate savings. Post merger staffing reductions began for the most part in the fourth quarter and as a result provided relatively small contributions to savings in calendar year 2000, but are expected to result in greater savings in future periods.

Condition Number: 1
Condition Name: Separate Affiliate for Advanced Services

Section 1: Summary

This Condition required Verizon to transition the provisioning of Advanced Services in the Verizon service areas to one or more structurally separate affiliates in accordance with the schedule and operating provisions set forth in Merger Condition I (¶ 1). These provisions include the following.

- Subject to certain transitional mechanisms and timeframes, the separate Advanced Services affiliate shall operate in accordance with the structural, transitional, and non-discrimination requirements of 47 USC ¶ 272(b), (c), (e) and (g) except as otherwise permitted by the Merger Conditions (¶ 3.a).
- Any Verizon incumbent LEC and the Advanced Services affiliate may jointly market each others' services and provide customer care for each other (¶ 3.a).
- After the transition period, all Advanced Services offered by Verizon in a state will be provided by an affiliate in accordance with specified "steady-state" conditions (¶ 4).
- Verizon shall establish an Advanced Services affiliate prior to merger close and make the necessary certification and interconnection agreement filings with state regulatory commissions prior to merger close (¶ 5).

Commitments for this Condition in 2000 were met as specified below. Specifically, in a December 18, 2000 letter from Verizon to Ms. Dorothy Attwood, Chief of the Common Carrier Bureau, Verizon requested a waiver of certain provisions of Condition I. Also, in a limited number of instances transactions between the separate affiliate and the Verizon ILECs were not reduced to writing and/or were not summarized on the Internet in the timeframes required by the merger conditions. These issues are described in Section 4: Additional Action Taken.

Verizon has multiple separate affiliates that offer Advanced Services. For example, Verizon's long distance affiliates provide packet switched services to the public in limited instances. However, because the overwhelming preponderance of Verizon's Advanced Services are offered through Verizon Advanced Data Incorporated (VADI), this report focuses on the compliance activities undertaken relative to VADI.

Section 2: Responsible Executives

Name	Title
Virginia Ruesterholz	Senior Vice President – Wholesale Services
George Via	Senior Vice President – VADI

Section 3: Implementation of Condition

3.1 Compliance

The following milestones were met for this Condition:

Compliance Table

Condition	Paragraph	Milestone	Due Date	Date Completed*
1	5.b	File for any state certifications or approvals necessary for the Advanced Services affiliate to provide advanced services.	6/30/00	6/29/00
1	4.n.3	File with state as necessary for approval to transfer embedded customers to Advanced Services affiliate, except for asset transfers covered in sections 3(d) and 3(e).	6/30/00	No filings required.
1	5.a	Advanced Services affiliate must negotiate and file interconnection agreements for approval pursuant to 47 U.S.C. 251 and 252.	6/30/00	6/29/00
1	4.n.1	ILEC to cease providing on an exclusive basis interim line sharing, including OIM associated with interim line sharing, to the Advanced Services affiliate when FCC required former BA and former GTE to provide line sharing to unaffiliated telecommunication carriers.	6/30/00	Interim line sharing was never provided to the affiliate
1	3	Begin operating Separate Advanced Service affiliate(s) in accordance with structural, transactional and non-discrimination obligations of Section 272 (b), (c), (e) and (g) as interpreted January 27, 2000, and subject to exceptions outlined in the merger conditions.	7/17/00	7/17/00
1	3.d	Advanced Services affiliate shall own and operate all new Advanced Services equipment used to provide Advanced Services after the later of 1) 90 days after merger close or 2) the issuance of final order in SBC proceeding re. remote terminals.	9/28/00	9/28/00

* For Condition 1, the 'Date Completed' reflects activities completed for states where approvals received. As noted in Verizon's December 18 waiver letter noted above, in California, Hawaii, New Jersey and for Virginia (GTE) state approvals were not completed in year 2000.

Condition	Paragraph	Milestone	Due Date	Date Completed*
1	9	ILEC shall report to the Commission separate measurements for the Advanced Services affiliate in accordance with merger condition 5, subject to proprietary treatment and available only to those subject to a protective agreement; propose a new line sharing measurement within 30 days of Merger Close; implement such measure within 90 days of Common Carrier Bureau approval. See Condition 5 portion of this Report for complete information.	See Condition 5	See Condition 5
1	6.b	Any tariffs necessary for the Advanced Services affiliate to provide Advanced Services to customers that are Internet service providers shall be filed prior to the date on which BA/GTE is required to provide advanced services to the incumbent LEC's embedded base of customers in a state.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.b, 3.e	Transfer embedded customers that are providers of Internet services no later than the later of the date on which any asset transfer is completed or 180 days after merger close.	12/27/00 or 180 days after required state approval is obtained	12/19/00
1	6.d	Any tariffs necessary for the separate Advanced Services affiliate to provide Advanced Services to customers that are not providers of Internet services shall be filed prior to the date on which Verizon is required to provide Advanced Services to the incumbent LEC's embedded base of customers.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.d	Transfer embedded customers that are not providers of Internet services to the separate Advanced Services affiliate no later than the later of (i) 30 days after state approval of any necessary certification, tariffs or any other required state authorization, (ii) 30 days after state approval of all necessary agreements, including any agreement to transfer or assign customers from the incumbent LEC to the separate Advanced Services affiliate, (iii) 180 days after the Merger Closing Date, or (iv) completion of any asset transfers pursuant to Paragraph 3(e).	12/27/00 or 180 days after state approvals of asset transfer	12/19/00

Condition	Paragraph	Milestone	Due Date	Date Completed*
1	6.a	Any tariffs necessary for the Advanced Services affiliate to provide Advanced Services to customers that are internet service providers shall be filed prior to the date on which Verizon is required to provide new activations through an Advanced Services affiliate.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.c	Any tariffs necessary for the separate Advanced Services affiliate to provide Advanced Services to customers that are not providers of Internet services shall be filed prior to the date on which Verizon is required to provide new activations through an Advanced Services affiliate.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.e	ILEC shall file any necessary tariff changes with the state and FCC to terminate offering by the ILEC no later than the date the Advanced Services affiliate may begin offering Advanced Services to existing customers of the ILEC in the state.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	4.n.2, 5.a, 6.a	New activations for Advanced Services affiliate customers that are providers of Internet Services must be no later than the later of (i) date on which any asset transfers are complete pursuant to 3.e. or (ii) 180 days after merger close.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	4.n.2, 5.a, 6.c	New activations for Advanced Services affiliate customers that are not providers of Internet Services must be no later than the later of (i) date on which any asset transfers are complete pursuant to 3.c. or (ii) 180 days after merger close.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	4.n.3, 6.b, 6.e	ILEC must cease providing Advanced Services to embedded customers that are Internet services providers at the later of asset transfer or 30 days after necessary approvals in that state to transfer or assign embedded customers.	12/27/00 or 180 days after state approvals of asset transfer or 30 days after state approval of customer assignment if later	12/19/00

Condition	Paragraph	Milestone	Due Date	Date Completed*
1	4.n.3, 6.d, 6.e	ILEC must cease providing Advanced Services to embedded customers that are not Internet services providers at the later of 30 days after certification approval, tariffs or other authorized state approval of necessary agreements.	12/27/00 or 180 days after state approvals of asset transfer or 30 days after state approval of tariffs or agreements if later	12/19/00
1	6.e	ILEC shall, no later than the date the Advanced Services affiliate may begin offering Advanced Services to existing customers of the ILEC, cease initiating marketing and sales by the ILEC.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.e.	ILEC shall file any necessary tariff changes with the state and FCC to terminate offerings by the LEC no later than the date the SDA máy begin offering Advanced Services to existing customers of the ILEC in the state.	12/27/00 or 180 days after state approvals of asset transfer	12/19/00
1	6.f	BA/GTE shall petition Common Carrier Bureau at FCC if state does not provide approvals within 180 days for extension of relevant deadline.	12/27/00	12/18/00
1	4.n.5	After BA/GTE required to provide all Advanced Services through Advanced Services affiliate in accordance with paragraph 6, if the ILEC permits the Advanced Services affiliate to use its Advanced Services equipment that had been installed no later than the dates specified in 3.d.then ILEC must permit others to use the equipment under the same rates, terms and conditions.	See Paragraphs 6(a)-(d)	Not applicable
1	3.e	Where BA/GTE plan to take advantage of asset transfer, file for asset transfer of Advanced Services Equipment from ILEC to Advanced Services affiliate in states where required.	12/27/00	10/30/00 (date last state asset transfer made; most made before this date)
1	3.c.3,4.n.4	ILEC must cease providing network planning, engineering, design and assignment to Advanced Services affiliate, including creation and maintenance of customer records, 180 days after merger close.	12/27/00	12/27/00

Condition	Paragraph	Milestone	Due Date	Date Completed*
1	3.a, 4.n.6, 4.b.6	180 days after merger close, ILEC must use same interface that is available to unaffiliated carriers to access loop information-customer specific information when engaged in marketing on behalf of the separate Advanced Services affiliate.	12/27/00	12/27/00

3.2 Methods and Procedures

The following methods and procedures have been implemented to meet the requirements of this Condition.

Methods and Procedures Table

Condition	Paragraph	Procedures	Date Completed
1	Section 272 (b),(c), (e) and (g)	Executive Notice on Advanced Services affiliate Obligations Early communication with notice to all executives describing post merger obligations regarding the Advanced Services obligations and reinforcing Section 272 obligations. Provided summaries of key rules.	7/7/00
1	Section 272 (b),(c), (e) and (g)	Responsibilities And Procedures For Executing Affiliate Transaction Agreements/Amendments Between VADI and Verizon Incumbent Local Exchange Carriers	11/7/00
1	Section 272 (b),(c), (e) and (g)	**Responsibilities And Procedures For Posting Notice And Details Of** VADI and Verizon Incumbent Local Exchange Carriers Transaction Agreements/Amendments To The VADI Worldwide Website	11/7/00
1	Section 272 (b) (3)	Joint Procedures adopted by the Corporate Secretary Department and the Affiliate Transaction Compliance Office to provide compliance with Section 272 (b) (3) of the Telecommunications Act of 1996 in that Section 272 Affiliates and the ILECs do not have common officers or Directors. It was modified to add VADI to the list of affected Affiliates.	6/30/00
1	4.n.5	Procedures for Circuit User Creation and Management Of Circuits Using SmallWorld Circuits.	9/22/00
1	4.n.5	How Project Management works in SAP	9/22/00
1	4.n.5	Infrastructure Provisioning - New Product Rollouts and Augments for VADI	12/1/00
1	3.a, 4.n.6, 4.b.6	Wholesale Markets Joint Marketing Agreement Operating Principles -In Support of the Joint Marketing and Customer Care Agreement between Verizon and VADI	12/19/00

Condition	Paragraph	Procedures	Date Completed
1	N/A	Operating Methods & Procedures: • Pre Sales/Order • Ordering • Product Life Cycle Management • New Product Development & Deployment • Joint Marketing & Customer Care • Business Development • Systems (OSS) • Interfaces/Gateways (API's) • Measurements • Trouble Isolation and Repair • Infrastructure/Network Provisioning • Service Provisioning • Work Flow Management • Network Maintenance • Billing & Collections • Finance • **Human Resources**	5/27/00 NY, 10/27/00 All Other States
1	N/A	Accounting Procedures for VADI: • Cellphone & Pager Procedures • BANDI Approval Limits.doc) • Citizen's Conferencing Policy • Employee Expense & Travel Policy • Receiving and Tagging Procedures • VAD Vendor Invoice Processing • APPROVAL FOR PAYMENT OF INVOICES • VAD East Expense Voucher Procedures • Expense Report • No Receipt • VAD West Expense Voucher Procedures • EECR Guide	Various Dates

3.3 Training

The following training took place in support of this Condition.

Training Table

Condition	Target Audience	Training Content	Date Completed
1	VADI/ILEC	Training course developed to enable SDA and ILEC employees the ability to understand the arms length rules surrounding transactions between the two companies known as Rules of Engagement	Varies 8/01/00 – 12/31/00 and on-going

Condition	Target Audience	Training Content	Date Completed
1	VADI/ILEC	Training package developed to deliver operating guidelines on advanced data services affiliate obligations for procurement of equipment, network planning, engineering, design and traffic assignment.	Dates vary, dependant on state conversion schedule, 10/01/00 – 12/31/00
1	VADI/ILEC	Joint Marketing and Operations Training package developed outlining the ILEC obligations to VADI for Sales and Marketing activities.	11/1/00 – 12/31/00 and on-going

3.4 Internal Controls

In addition to the corporate internal control environment described in the Introduction section of this report, the following controls and tools were designed and implemented specifically to enhance compliance with this Condition.

Verizon operated a Program Management Structure for implementing the transition to an Advanced Services affiliate. The transition program is managed by George Via, Senior Vice President – VADI, one of the Responsible Executives for this condition. His focus was an orderly "hand-off" of the Advanced Services products and equipment from the ILEC to the new affiliate in accordance with the requirements of the Condition. Virginia Ruesterholz, Senior Vice President – Wholesale Services, is accountable for establishing and maintaining arms length relationships with the Verizon Advanced Services affiliates so that treatment is consistent with that provided to non-affiliated advanced services providers. For example, the new affiliate now orders collocation and unbundled network elements and she is accountable for delivering these products to the affiliate.

The transition program is organized as functional project teams working under the umbrella of a Program Management Office (PMO). These teams include:

- product development and marketing management;
- process development;
- systems/testing;
- contracts and legal;
- inventory management;
- finance;
- regulatory;
- human resources; and

- work center implementation.

The role of the teams has been to implement the Advanced Services affiliate and to identify and resolve or escalate issues, including issues related to compliance with this Condition. In 2000, the Project Management Office was directed by a project lead and subordinate program managers to provide coordination, project management, and oversight roles among the project teams. Project control was orchestrated by a series of meetings: (1) a program managers meeting, in which the program managers and project managers meet to discuss program status; (2) a periodic PMO call attended by the team leads and PMO to discuss plan status, points of coordination, risks, and issues; and (3) periodic executive calls. As part of the transition management process, the Responsible Executives have reviewed several key control schedules prepared or maintained by the PMO.

During the year those officers responsible for the transition activities used various tracking reports to readily identify situations where critical milestone dates needed to be met. These schedules also provided the Executive the opportunity to increase focus on the matter and shift resources if needed. These key schedules include:

- Schedule for State Certification Filings and Approval;
- Schedule for State Interconnection Agreement Filings and Approval;
- Schedule of Affiliated Interest Filings;
- Schedule for Asset Transfer Filings and Approval;
- Schedule for State Advanced Services Affiliate Tariffs;
- New Activation Report;
- Embedded Customer Cut-over Report;
- ILEC/Advanced Services Affiliate Contract Execution and Posting Schedule;
- Transition Services Termination Report; and
- Schedule for Training

To provide employee awareness of the limitations on the relationship between the affiliate and the ILEC, a corporate communications and training plan has been implemented. Initially, a letter was sent to employees outlining the rules, and a separate Advanced Services affiliate/ 272 training package was developed. Department-specific training follow-ups were delivered. Targeted training of separate Advanced Services affiliate obligations for procurement of equipment, network planning, engineering, design, assignment and joint marketing was completed.

3.5 Documentation

Condition	Paragraph	Description of Document
1	5.b	State Certification filings and state decision documentation
1	3.e	State Asset transfer filings and state decision documentation
1	5.a	State Interconnection Agreement filings and state decision documentation

Condition	Paragraph	Description of Document
1	6.a, 6.b, 6.c, 6.d	State & Federal ILEC/Advanced Services affiliate Tariffs filings and final approved tariffs
1	6.f	State & Federal Waiver filings and regulatory decisions
1	Various	Methods of operation, company practices, functional process flows and detailed procedure documentation
1	Various	Employee training records and communication materials
1	Various	Services contracts and agreements for transactions between the LEC and the Advanced Services affiliate, including web postings
1	Various	Customer notices
1	9	Performance reports from ILEC for services provided to affiliate
1	10	Advanced Services affiliate executive compensation plans

Section 4: Additional Action Taken

In a December 18, 2000 letter from Verizon to Ms. Dorothy Attwood, Chief of the Common Carrier Bureau, Verizon requested a waiver of certain provisions of Condition I. The waiver related primarily to the fact that the necessary state approvals had not been received in three of Verizon's 32 state operating territories by December 27, 2000. Verizon exercised good faith efforts to obtain these approvals. No further action is needed at this time.

Also, in a limited number of instances, transactions between the separate affiliate and the Verizon ILECs were not reduced to writing and/or were not summarized on the Internet in the timeframes required by the Merger Conditions. Verizon is in the process of validating the internal control processes to determine if any incremental changes are needed to prevent such inconsistencies with the Merger Conditions in the future. The initial review indicates the contractual gaps were largely related to conversion requirements that needed to be completed in compressed time periods and are not likely to be recurring in nature. Verizon continues to reinforce the importance of timely contract activity. Training is required for employees accountable for compliance with the merger obligations. Training messages will be reinforced through corporate e-mails and employee publication reminders throughout 2001.